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DAYTON HUDSON CORPORATION

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COMPETING BY SERVING THE CHANGING CUSTOMER

1990

1990 ANNUAL REPORT

Managing for the long-term • Expanding our store base
Creating a consistently positive shopping experience • Improving productivity through technology
Partnering with our communities

COMPETING BY SERVING • THE CHANGING CUSTOMER •

We begin 1991 poised to achieve substantial long-term growth because of our disciplined approach to planning and a strategic view that keeps us focused on our customer.

Dayton Hudson Corporation had a good year in 1990, with each division contributing record operating profit. Considering the economy and the business environment, we are satisfied with our financial results but disappointed we did not achieve the earnings goals we had set for ourselves.

The preceding page summarized our financial performance: revenues of $14.7 billion, net earnings of $412 million and fully-diluted earnings per share of $5.20. What was not spelled out was the fact that our earnings were negatively affected by the acquisition of Marshall Field's, the implementation of an Employee Stock Ownership Plan (ESOP), and a significant increase in LIFO expense. Without these charges, which totaled 82 cents per share, our fully diluted earnings per share would have been higher in 1990 than in 1989.

We begin 1991 poised to achieve substantial long-term growth because of our disciplined approach to planning and a strategic view that keeps us focused on our customer.

Take Target Greatland. This new super store opened after two years of extensive customer research. What we learned helped us design a larger store with clearer merchandise offerings. Customer response has exceeded our expectations. This year we will open six more Target Greatland stores and we are incorporating many of the Greatland improvements in Target stores chainwide.

Target also will begin testing a small market strategy with four stores in rural Minnesota. Overall, we expect to open 40-45 Target stores during 1991. That brings our five-year capital investment in Target to $2.5 billion. Target is America's major upscale discount chain — and our primary growth vehicle.

Mervyn's continues to strengthen its position as a leader in the moderate-priced casual and home fashions retail niche. Mervyn's focus on cost reduction and merchandise quality and presentation will lead to increased market share and higher profitability in the '90s. Mervyn's will grow by 15-20 stores in 1991, including a major entry into Florida markets.

The Marshall Field's acquisition is a great strategic fit for our department stores. The Department Stores' base business has been affected by the Field's acquisition, but we expect better results by Fall of 1991.

We would have preferred to wait until the economy was stronger before increasing our debt, but we knew the Field's opportunity was too good to pass up. By year end, our debt as a percent of total capitalization was 65 percent, lower than at mid-year and within our "comfort" zone. We plan to reduce our debt ratio further in 1991.

Growth is critical to success. But having many stores is not enough. To be more successful, we must improve productivity and offer customers consistently positive experiences so they become loyal consumers.

Our objective is to earn that loyalty by executing better.

We are committed to providing customers a clear offering and an easier shopping experience. This means that merchandise is selected and presented to provide dominant assortments, trends and items that are consistently in stock and presented in ways that attract customers and make our stores easier and faster to shop.

For example, at Mervyn's, we offer a wide selection of high quality key apparel items in

trend-right colors. They are well-stocked and presented in what we call strike-points — eye-catching displays that quickly inform customers about selection, quality and price, and even show how to wear the new style. It all comes together in a clarity of offering that removes the barriers and stimulates time-starved customers.

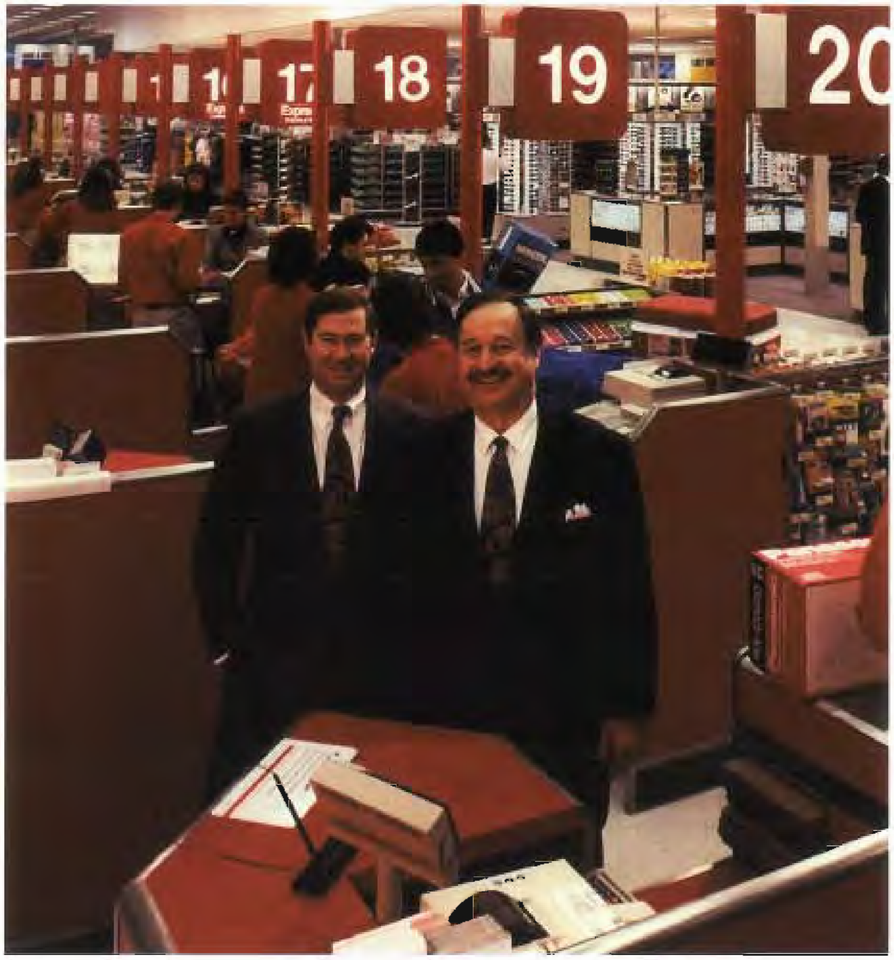
- We know that our ability to please our customer on the sales floor depends more and more on how advanced we are in the back room. We have invested more than $400 million over the last five years in advanced systems to manage information, reduce our operating costs, maintain a consistent in-stock position, improve our sales and earnings productivity and help customers check out with fast and accurate transactions.

- We are paying great attention to quality — in people and in products. We have training programs in place in all our divisions to improve the sales skills and the culture of service throughout our operations.

Target and Mervyn's both have product testing capabilities and all three divisions work closely with vendors to improve the quality of private-label merchandise. We will not disappoint customers who expect and deserve top quality products.

- We are dedicated to lowering expense levels. Mervyn's has set record low expense rate levels in each of the past five years. Target and the Department Stores will be focusing more on lowering expenses in 1991. It will be a top priority throughout the '90s.

- Finally, we remain strongly committed to our partnerships with the communities where we do business. In 1990, charitable contributions by the Dayton Hudson Foundation and our divisions exceeded $30 million.



Stephen E. Watson, President, and Kenneth A. Macke, Chairman and Chief Executive Officer, at the new Target Greatland store in suburban Minneapolis.

I am confident that the business strategies we are implementing will provide the future growth that all of us — shareholders, employees, customers, communities and suppliers — want. And I am convinced that by maintaining our commitment to superb execution of our strategies, Dayton Hudson will remain healthy and strong.

Sincerely,

Kenneth A. Macke

Kenneth A. Macke
Chairman of the Board and
Chief Executive Officer

March 28, 1991

LEADERSHIP IN DEPTH

Leadership is a top priority at all of our divisions, which share a commitment to individual and professional development, empowerment and diversity.

This culture was repeatedly recognized in 1990. Robert Ulrich, Target's chairman and CEO, was named Discounter of the Year by readers of Discount Store News magazine. Larry Gilpin, Target's senior vice president of personnel, was named Human Resources Executive of the Year by Human Resource Executive magazine. The Corporation was named "One of the Best Companies for Women" by Business Week magazine

We are fortunate to have talented management at each operating division, strengthened by the recent appointments of Warren Feldberg as Target's president and Joseph Tomaselli as Mervyn's executive vice president.

Other recent key leadership assignments include those of Target executive vice presidents George Jones and Kenneth Woodrow, senior vice presidents Linda Ahlers, Thomas Jeffery, John Pellegrene, Ralph Salo, Paul Sauser and Greg Steinhafel, and regional senior vice presidents Kevin Freeman and Julius Jones.

Leadership assignments at the Department Stores include James Stirratt as executive vice president, Dayton's stores; Dennis Toffolo, president, Hudson's stores; Gary Witkin, president, Marshall Field's stores; and senior vice presidents Susan Boren, Richard Hoover and Andrew Markopoulos.

Executives meet regularly as the Management Council. Our most senior executives comprise the Corporate Operating Committee, which refines strategy and operating objectives.

MANAGING
for the long-term

OUR DISCIPLINED APPROACH

COMPETING BY SERVING • THE CHANGING CUSTOMER •

Dayton Hudson Corporation's success is based on our ability to make the best use of our resources and provide customers with a consistently positive shopping experience. Our culture emphasizes concentration on the fundamentals of our business: accountability, disciplined planning at all levels, the development of tomorrow's leaders and positive community involvement.

Our top management team — the seven-member Corporate Operating Committee — represents 155 years of combined retail management experience and is comprised of corporate and operating division leadership.

Managing for Performance

Our primary goal is to provide shareholders with a superior return on their investment while maintaining a strong and flexible capital structure.

To achieve this, we must earn superior returns on the funds we invest in the business by concentrating on two factors: earnings growth and return on investment (ROI).

Our objective is to produce average annual earnings per share growth of 15 percent over time. Since 1985, fully diluted earnings per share have grown at a compound annual rate of 12 percent.

Return on investment totaled 11.6 percent in 1990 compared with 11.4 percent in 1989 and 8.9 percent in 1988. ROI is the most important single financial performance measure we use to manage our business and make investment decisions.

Planning to Support Growth

Over the past five years, we have added approximately $5 billion of capital investment in support of new and remodeled stores, systems and distribution capabilities.

We use a disciplined strategic planning process to assess growth opportunities and commit funds. We plan on a rolling five-year basis and review our growth plans annually. Planning is thorough, but not rigid; at any point, capital is usually committed for no more than 18 months into the future.

Our planning process is designed to provide for several outcomes: that expansion projects are justified by strong ROI performance; that we can open the number of stores needed to achieve our long-term earnings objective; and that we can continue to earn well in excess of our cost of capital.

Managing Debt

We are committed to maintaining strong investment grade ratings on our debt and to keeping our debt ratio within a range of 45 to 65 percent. This objective provides flexibility to take advantage of opportunities as they arise, such as our stock repurchases and the acquisition of Marshall Field's. At year-end, our debt ratio was 65 percent. With the equity our stores continue to add to our balance sheet, we expect to lower the debt ratio to approximately 55 percent by 1995. At the same time, we will continue to expand our operations.

Over time, we believe careful use of debt results in faster earnings growth for shareholders. Earnings per share have grown at a compound rate of 15 percent since 1980.

Committing Capital

Investments in new stores are very carefully studied. We pursue those that offer us the potential for meaningful impact in a market. We approached the Field's purchase in this context, using the same standards we apply in making all capital commitments.

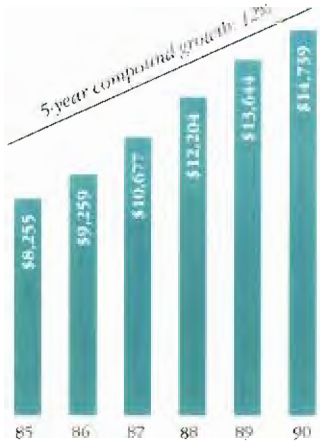
Field's is a premier retailer with a compatible philosophy, including long-standing leadership in full-service fashion retailing. Field's also enjoys a very strong relationship with a large base of customers in an important region. These traits fit well with existing operations.

By streamlining and integrating central functions, administrative procedures and information systems, we believe our Department Store Division can profitably achieve significant efficiencies in operating the larger base of stores.

POISED FOR OPPORTUNITY.

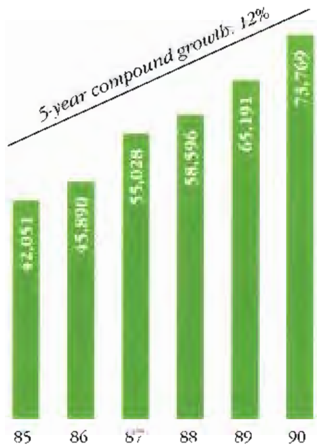
Dayton Hudson's careful management of resources over the years positioned the Corporation for a major opportunity in 1990: the acquisition of Marshall Field's, one of America's premier retailers. At the historic State Street store, Field's tradition of fashion, quality and service continues.

REVENUES
(Millions)



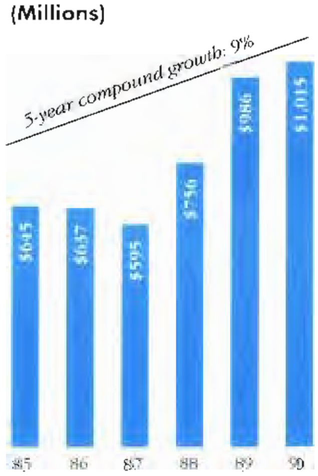
The way we have clearly defined our three retail offerings has been well received. Revenues have risen significantly in the last five years.

RETAIL SQUARE FEET*
(Thousands)



We have invested billions of dollars to expand our successful retail strategies in fast-growing markets such as the Southwest, the Southeast and the Pacific Northwest.

OPERATING PROFIT*
(Millions)



Our concentration on superior execution of the fundamentals of our business has paid off. Each of our divisions contributed record operating profit in 1990.

* *Excludes Lechmere*

90

Target, Mervyn's and the Department Stores each achieved record operating profit in 1990 — a tough year for retailers. At the same time, Target unveiled a new super store format and Mervyn's lowered its expense rate while maintaining its customer base despite tough competition. The Department Stores integrated Marshall Field's group of 24 stores.

TARGET

Strong growth in sales and operating profit made 1990 another record performance year for Target.

We opened Target Greatland — a totally new super store concept centered on the customer's entire shopping experience. Many of the Greatland strategies and ideas are being incorporated in our stores chainwide to make them easier to shop.

We believe a strong distribution network is critical to our growth and in 1990, we improved our system significantly. Our quick response partnership with vendors leads the industry and, for us, it's only the beginning.

As long as we focus on our mission of exceeding our customers' needs, we will continue to operate America's most profitable upscale discount stores.

(Millions of Dollars)	**1990**	1989	1988
Revenues	**$8,175**	$7,519	$6,331
Operating profit	**$ 466**	$ 449	$ 341
Stores	**420**	399	341
Retail square feet (000)*	**42,241**	39,994	34,189

MERVYN'S

Mervyn's record financial results since 1988 have principally been driven by our market-focused strategy and dedicated cost reductions. This served us particularly well in the soft economy of 1990.

An expert product development staff, along with our own testing lab, are two examples of our ongoing effort to provide better quality merchandise to our value-conscious customer.

Our customer is experiencing a more convenient and pleasant shopping experience through our investments in store interiors, point-of-sale technology and consistent in-stock position.

Our strategy is focused for the long term; we will manage expense and increase value for our customer.

(Millions of Dollars)	**1990**	1989	1988
Revenues	**$4,055**	$3,858	$3,411
Operating profit	**$ 366**	$ 358	$ 256
Stores	**227**	221	213
Retail square feet (000)	**17,973**	17,486	16,776

DEPARTMENT STORE DIVISION

The Department Store Division's 1990 operating profit was up slightly from 1989, but our return on sales fell due to the difficult economy and the distraction of the Marshall Field's integration. Field's results, however, exceeded plans.

While Field's customers saw no change, we centralized most functions, integrated systems, implemented localized buying capabilities and changed marketing plans to lower costs and boost sales productivity.

All along, we have paid special attention to our partnership with over 13,000 Field's employees. Our marriage of three great stores has created one great company which benefits our shareholders, employees, customers and communities.

(Millions of Dollars)	**1990**	1989	1988
Revenues	**$2,509**	$1,801	$1,693
Operating profit	**$ 183**	$ 179	$ 159
Stores	**61**	37	37
Retail square feet (000)	**13,555**	7,711	7,631

*Total square feet less office, warehouse and vacant space.

Even in difficult and competitive times, Target is the only upscale discount store chain experiencing significant growth. Through 1996, we will almost double our size in large and small markets.

Target competes effectively because we create areas of difference that appeal to our upscale customers: attractive and clean stores, exciting merchandise presentation, top merchandise quality, speedy presentation of trends and our ability to fine-tune merchandise according to each market.

These efforts will continue to improve our competitive edge. We will lower our operating expense rate as we provide the best service in the industry.

I believe we have the right formula to take us into the next century successfully.

—R.J.U.

Robert J. Ulrich
Chairman and Chief Executive Officer
Target

In 1991, we anticipate more economic and competitive challenges. We are responding with excellent inventory and expense management, combined with an aggressive and creative promotional schedule.

We will continue to focus on our customer and further improve the value of the products and services we provide.

Our emphasis on quality and fashion-right merchandise, presented in a pleasant and easy-to-shop environment, is a sustained theme we expect to take to new levels in 1991.

We have a full agenda. We also have a talented organization that aspires to achieve industry-leading results. With this commitment, we will fulfill our long-term goals.

—W.T.R.

Walter T. Rossi
Chairman and Chief Executive Officer
Mervyn's

The key to our success as a department store retailer in 1991 will be our ability to present clearly focused and exciting trend merchandise that reflects dominance, newness, quality and fashion leadership. We must also excel in both our localized buying strategy and our diligent management of inventories and expense.

Differentiation is our continuing challenge. Only by being very skilled at how we execute merchandising, visual presentation, advertising and customer service will we stay ahead of the competition.

By executing the fundamentals of our business successfully, we will continue to be the store of choice in each of our markets.

—M.W.G.

Marvin W. Goldstein
Chairman and Chief Executive Officer
Department Store Division

Our divisions face similar challenges in 1991: continue to expand, broaden the customer base by consistently offering a positive shopping experience, operate more productively and lower expense rates. Target will open 40-45 stores, including six Greatland locations, Mervyn's will launch a major entry in Florida and the Department Stores will concentrate on improving base business

EXPANDING
our store base

THE BENEFITS OF GROWTH

COMPETING BY SERVING • THE CHANGING CUSTOMER •

We are committed to growth — in market share and in long-term financial performance. Growing our store base contributes to both goals. Stores provide greater profitability as they mature. At the same time, having a major presence in a market makes merchandising and promotional expenditures more cost-effective.

We grow first by increasing sales volume at existing stores, then by expanding within existing markets. Our next priority is to enter new markets. Concurrently, we invest in systems and programs that improve productivity.

Investing in Higher Performance

The total retail space of our three divisions has increased 75 percent since 1985. Target has added 20 million square feet while Mervyn's and the Department Stores have each added six million square feet. These three strategies produce sales per square foot of $198, $230 and $222, respectively. Their expansion has helped provide the cash flow that supports current commitments.

Today's investments will, in turn, help us achieve our long-term performance objectives.

During the past five years, we have invested $5 billion in our store base and related systems. In 1990, we invested $1.7 billion in capital projects, including the acquisition of Marshall Field's. In 1991, our capital plans total approximately $1 billion.

We deploy capital based on divisional return on investment performance, which is regularly monitored within our multi-year planning process.

High-Growth Strategies

Target and Mervyn's will continue to be our fastest-growing strategies. Half of Target's store base has been open for four years or less. During 1990, Target opened the first Target Greatland, a totally new super store format centered on the customer's entire shopping experience. The results have been outstanding and additional stores are planned in 1991 for Illinois, Minnesota and Ohio. Target also will test a small market strategy in 1991 designed for markets of about 50,000 people.

Overall, Target's growth plans call for opening approximately 300 stores during the next five years. The division expects to expand significantly in Florida, Michigan, Ohio and in the Chicago area.

Mervyn's value-oriented active and casual softlines offering is being very well received outside its initial California market. In early 1991, Mervyn's announced it would expand into southern Florida. The division expects to open 15–20 new stores in 1991, including 12 in Florida. Through 1995, Mervyn's plans to open approximately 80 new stores.

Benefiting from an Opportunity

The Department Store Division nearly doubled its retail space in 1990 by acquiring Marshall Field's. The purchase adds a strong, widely recog-

Target and Mervyn's will continue to be our fastest-growing strategies.

nized name to the division. Many Field's operations have been integrated to provide greater operating efficiencies.

Another 1990 milestone was the opening of the replacement Dayton's Southdale store in suburban Minneapolis. The store's emphasis on making shopping more convenient expanded the store's clientele quickly and significantly. In 1991, the division will open another replacement Dayton's store in suburban St. Paul and two new Wisconsin Dayton's stores. Major remodels will be completed at four Marshall Field's stores, at Dayton's in suburban Minneapolis, and at Hudson's Oakland store in metropolitan Detroit.

GREATLAND DEBUTS AT TARGET. Target's plan to add approximately 300 stores over the next five years will include some of its new Target Greatland super store format, which debuted in suburban Minneapolis in 1990. Greatland stores are larger than standard Target stores — and every inch is designed to satisfy customers' needs for improved customer service, comfort, convenience and broader merchandise selection. Greatland retains the same competitive prices, quality hardlines and trend-conscious softgoods customers expect from Target. Here, decorative tabletop items are presented in the new fashion statement of teal and black. New Target Greatland stores are expected to open in 1991 in Illinois, Minnesota and Ohio.

Creating a consistently positive shopping EXPERIENCE

STOCKING THE TRENDS

COMPETING BY SERVING • THE CHANGING CUSTOMER •

We are in the business of offering customers a consistently positive shopping experience. To fulfill constantly changing expectations, we concentrate on what we call our "clarity of offering." Clarity means buying and presenting merchandise so that we always offer dominant assortments, dominant trends and a broad selection. Next, we make sure the items are always in stock. Finally, we present the merchandise in ways that make it appealing and easy to shop.

Trend merchandising always has been the "art and soul" of retailing. Thanks to customers' increased awareness of global fashions, only the sharpest retailers can regularly satisfy today's intense trend demands. To stay in the forefront, we rely on constant trend surveillance, quality testing, savvy buying and strong relationships with vendors who can consistently supply stores according to our demanding requirements. These are a few examples of how successful this effort was last year.

- Target sold more than 5.6 million Teenage Mutant

Our offering is clear: the right trends, consistently stocked and presented to capture the eye, inform and persuade. Coordination like this creates excitement and reduces purchasing barriers for time-starved customers

Ninja Turtles action figures, worth $39 million.

- Chainwide, Mervyn's put 10.2 million units of basic and fashion fleece, worth $139 million, into customers' hands.
- The Department Stores sold $5.5 million of a single product: Giorgio's new fragrance, "Red."

Merchandise Dominance

Today's time-pressed customers demand — and we provide — broad selections within each merchandise category. We make the effort to stock the sizes, colors, finishes and accessories they expect.

Target offers a wide range of merchandise in most departments, particularly in hardlines and health and beauty aids.

Mervyn's fleece and children's selections are broader than what most competitors offer.

The Department Stores present wide assortments of women's shoes, cosmetics, accessories, ties and designer-label home fashions and apparel.

All of these assortments focus on key trend items. Our 708 stores last year sold more than 4.6 million units of leggings, one of the year's hottest trends. The offering was presented in depth and everywhere — women's, junior's and even toddler's.

Today's customers want more than broad selection, however. Successful merchants must be able to stay in stock, especially on key items customers want. Over the last decade, we have invested significantly in systems to keep our shelves and sales floors stocked. At Target, for instance, rainchecks on advertised items have declined 72 percent in the past five years.

Presentation Dominance

Superior presentation of merchandise is essential to excite customers and make shopping easier.

Mervyn's "strike points" captivate browsers, show merchandise prominently, provide important product information and even demonstrate how to wear the latest styles.

The Department Stores use decor, floor plan and fixtures to enhance service and give the ambiance of specialty retailing within a wide selection.

Target has prominent spaces dedicated to presenting seasonal merchandise and various promotional programs.

Our merchants are constantly experimenting with exciting and helpful presentation methods. It's one way to outperform our competitors — and serve our customers better.

MERVYN'S POSITIVE SHOPPING EXPERIENCE. Mervyn's Sprockets® line of children's wear is tailored for today's parents. The private label line was designed by Mervyn's to offer maximum value and wardrobe flexibility. Large wall presentations quickly show the complete line and suggest how various pieces might be mixed and matched. The styling, pricing, quality and easy-to-shop presentation of Sprockets® have made them very popular. Consequently, Mervyn's heavily stocks Sprockets® as "key" basic items. At Mervyn's, making the offering consistently positive means serving the customer better.

Improving productivity through TECHNOLOGY

THE IMPORTANCE OF INVESTMENT

COMPETING BY SERVING • THE CHANGING CUSTOMER •

During the past five years, we have seen the best of all trade-offs: customer service improved and the operating expense rate declined overall.

Since 1985, Dayton Hudson has invested more than $400 million in new technology in all of our divisions. This investment helps us build a competitive advantage by making us a more reliable retailer with a lower operating cost structure. The savings we gain from more efficient operations also enable us to invest in more improvements in customer service.

The Benefits of Technology

We use technology to increase productivity in our stores and throughout our distribution networks. Advanced systems also offer other benefits; they supply key information and enable us to operate with greater speed.

In-Store Technologies

In the stores, bar code scanning technology reduces cashier training, speeds check-out for customers and captures information quickly for use in automatic inventory ordering systems. Scanners permit daily assessments of in-stock positions at each Target store. All divisions now electronically order inventory from many of their vendors. Even the management of markdowns is computerized at Target and at the Department Stores.

Productivity at the Department Stores is improving dramatically with the integration of Field's into the division's sophisticated systems. These systems are helping the division nearly double its number of stores without a comparable increase in administrative or operating expenses. This enables us to achieve many of the the efficiencies of chain store operation in our department store format.

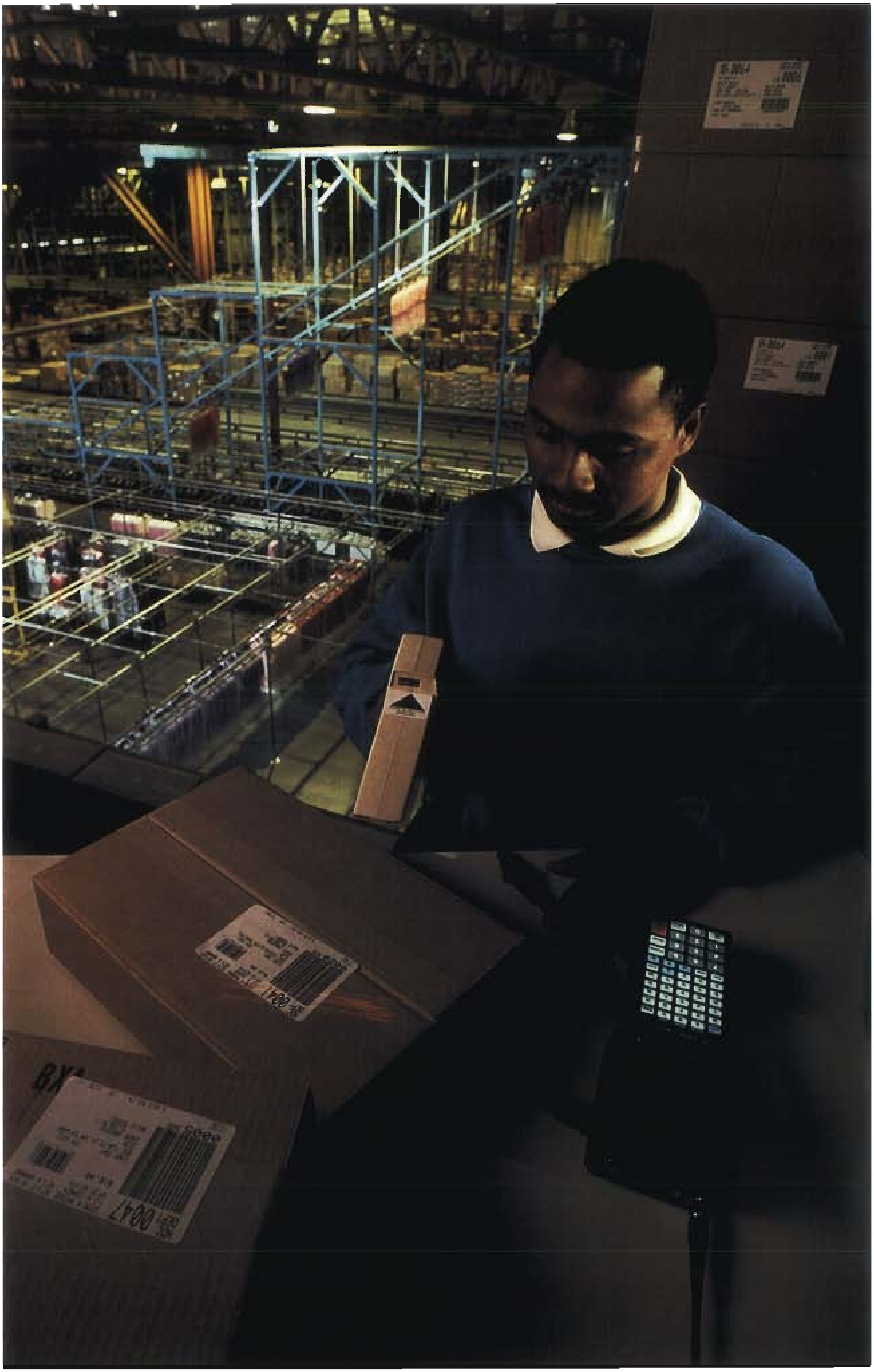
Other important investments improve the communication between stores and distribution centers. A closed-circuit video communications network is used extensively at the Department Stores. Target locations are linked via satellite to a nationwide communication network of stores, offices and distribution centers. This network permits daily analysis of nationwide sales activity and faster replenishment of each store.

Advanced Distribution Capabilities

Electronic capabilities are central features at all of our distribution centers. Advanced systems are being used to communicate with vendors, schedule deliveries and track merchandise between receipt from the vendor and distribution to stores. Computerized inventory control systems and merchandise bar coding also enable us to supply an individual store faster and more accurately than ever before.

These investments in advanced distribution capabilities have reduced our dependence on outside processing and warehousing services. Target, for instance, has increased its in-house processing of softlines merchandise from 40 percent to 95 percent in the past two years.

Our adoption of advanced technologies is another example of Dayton Hudson's policy of balancing short-term and long-term interests. We are willing to underwrite technology investments in the short-term in order to achieve the long-term financial benefits of greater productivity. During the past five years, we have seen the best of all possible trade-offs: customer service improved, while the operating expense rate declined overall. This effort will continue to be a top priority in the 1990s. In 1991, we will invest more than $100 million in information systems and improved distribution capabilities.



ADVANCED DISTRIBUTION TECHNOLOGY.

Mervyn's newest 436,000-square-foot distribution center, located in Fremont, California, features several advanced systems. Each item of merchandise receives a bar-coded label that helps the center's network of 13 microcomputers track the item as it is processed. Employees use scanner guns to check the progress of specific items at any point. Electronically generated orders from each store are filled quickly and accurately in a near-paperless system. The expandable facility, which currently serves up to 100 stores, increases Mervyn's processing capacity by more than 60 percent.

PARTNERING
with our communities

OUR GIVING POLICY

COMPETING BY SERVING • THE CHANGING CUSTOMER •

Grants by Target, Mervyn's and Dayton Hudson Foundation to the innovative Family-to-Family Initiative are designed to improve the quality of family-based child care services in the communities in which we operate.

Since 1946, we have invested considerable financial support and volunteer effort in improving the communities we serve. In 1990, grants totaled more than $30 million. Our contributions sustain groups working for the long-term health of local communities. The communities, in turn, nurture our stores. We believe this partnership is in the long-term interest of our business, even though everyone will not always agree with what we are supporting.

The Corporation manages a unified, corporate-wide giving program which concentrates on achieving results in two areas: social action and the arts. Forty percent of our community giving funds supports programs and projects that result in the economic and social progress of individuals and/or the development

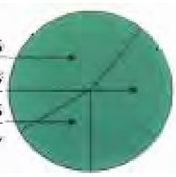
of local strategies that respond effectively to critical social and economic concerns.

Another forty percent of community giving funds supports programs and projects that result in artistic excellence and stronger artistic leadership in communities, and/or increased access to, and use of, the arts as a means of community expression.

Grants are made through the Corporation, the Dayton Hudson Foundation and our three operating divisions. Each division has its own priorities within the two focus areas.

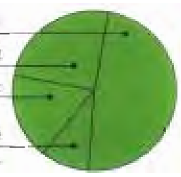
1990 Contributions by Focus Area
(Millions of Dollars)

Social Action	$13.6
Arts	$12.5
Miscellaneous	$4.6
Total	$30.7



1990 Contributions by Program
(Millions of Dollars)

DHF/DHC	$14.9
Target	$7.2
Mervyn's	$5.8
Department Stores	$2.8
Total	$30.7



1990 Accomplishments

Our giving program achieved several important objectives in 1990. We strengthened our commitment to children and families. Target joined Mervyn's in supporting the innovative Family-to-Family initiative. Family-to-Family is designed to improve the quality of family-based child care. Our total commitment to this program is $10 million over seven years.

In 1990, innovative programs such as Expressions '90 were funded for the first time. Expressions '90, supported by Mervyn's, helps 15 arts organizations in the development of multi-cultural arts programming for families.

We also welcomed Marshall Field's into our philanthropic family. By year's end, $1.6 million was contributed to social action and arts programs in Field's communities.

In 1991, the Foundation and our operating divisions will continue to focus on programs that benefit community social and cultural needs. We remain strongly committed to the long-term improvement of communities with which we have partnered through our business, contributions and employee volunteerism.

DAYTON HUDSON CORPORATION FINANCIAL INFORMATION

1990 HIGHLIGHTS

- The Corporation's three operating divisions achieved record revenues, up 13% over 1989 on a 52-week basis. Comparable-store revenues (revenues from stores open longer than 12 months) rose 3%.

- Operating profit also reached an all-time high, driven by increases at all three operating divisions.

- Net earnings were $412 million, comparable to the 1989 record performance of $410 million.

- Fully diluted earnings per share were $5.20, representing a decline of 3% from the prior year record of $5.35 per share.

- Return on equity was 22% in 1990, again surpassing the Corporation's objective of 18%.

- Dividends declared totaled $1.35 per share, an increase of 15% from $1.17 per share a year ago.

- In June 1990, the Department Store Division completed the $1.05 billion acquisition of Marshall Field's. In addition, the Corporation invested $686 million in new stores, remodeling existing locations, improving distribution and upgrading systems and technology.

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REPORT OF MANAGEMENT

The following financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles. Management is responsible for the consistency, integrity and presentation of the information in the Annual Report, which necessarily includes some amounts based upon our judgment and best estimates.

To discharge this responsibility, we maintain comprehensive systems of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our systems of internal controls provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal controls primarily through its Audit Committee, which is composed of seven independent directors. The Committee oversees the Corporation's systems of internal controls, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. Their report appears on this page.

In addition, our financial statements have been audited by Ernst & Young, whose report appears on page 33. As a part of its audit, Ernst & Young develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the financial statements and is based on an independent audit made in accordance with generally accepted auditing standards.

Kenneth A. Macke
Chairman of the Board and Chief Executive Officer

Stephen E. Watson
President

Willard C. Shull, III
Senior Vice President, Finance

Karol D. Emmerich
Vice President, Treasurer and Chief Accounting Officer

REPORT OF THE AUDIT COMMITTEE

The Audit Committee met twice during fiscal 1990 to review the overall audit scope, plans of the internal auditors and independent auditors, the Corporation's internal controls, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors, and the Corporation's annual financial statements were reviewed and approved before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 1991, subject to the approval of the shareholders at the annual meeting.

FINANCIAL REVIEW

(Millions of Dollars, Except Per-Share Data)

Our objective is to provide shareholders with a superior total return on their investment while maintaining a flexible capital structure. Total return consists of current dividend income and share price appreciation. Achieving this objective requires solid current earnings performance and profitable investment in new growth opportunities.

PERFORMANCE OBJECTIVES

Two primary performance objectives provide a framework for financial decision making.

- **Return on equity of 18%.** Return on equity (ROE) was 22.1% in 1990, reflecting strong earnings, the continued leveraging of equity through strategic investments financed with long-term fixed rate debt and the benefit of our stock repurchase programs in 1987 through 1989.

- **Average annual fully diluted earnings per share growth of 15%.** Fully diluted earnings per share decreased 3% in 1990 compared with increases of 55% in 1989 and 43% in 1988. Over the past five years, earnings per share have grown at a compound annual rate of 12%.

Achievement of our performance objectives depends largely on our ability to produce a superior return on investment (ROI). ROI is defined as net earnings before financing costs as a percent of total investment. We believe ROI is the most important measure of financial performance and it is the primary financial tool used to manage our business. ROI is an important part of our evaluation of capital projects, appraisal of operating division performance and the incentive compensation system for management.

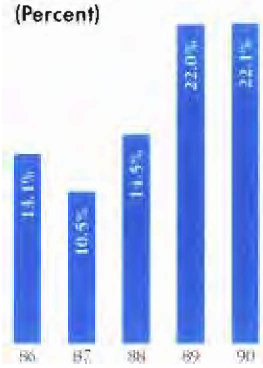
We use a growth adjusted ROI curve which sets annual ROI standards for the life of a project and produces an internal rate of return of 13%. ROI for a new store is lower in early years, reflecting start-up costs, lower sales and higher asset values due to lower accumulated depreciation. As stores mature, profitability improves and ROI increases, generating earnings growth.

Our investments are relatively young. Target's store space averages 4 years, while Mervyn's is 6 years. With the addition of Marshall Field's, the Department Store Division's capital investment is also relatively young. Despite the lower initial ROI of new projects, we continue to invest aggressively in new projects because it increases long-term shareholder value.

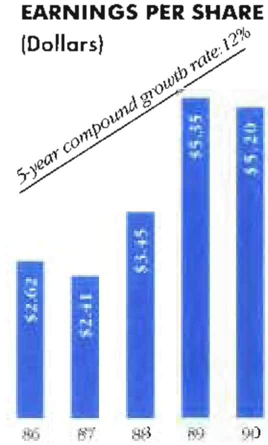
Return on investment	**1990**	1989	1988
Return			
Net earnings	**$ 412**	$ 410	$ 287
Interest expense - after tax (a)	**163**	152	119
Interest equivalent in operating leases - after tax (b)	**25**	27	24
Earnings before financing costs	**$ 600**	$ 589	$ 430
Investment			
Working capital (c)	**$1,218**	$1,221	$1,293
Net property and equipment (d)	**3,523**	3,486	3,106
Other non-current assets	**54**	56	62
Present value of operating leases	**395**	414	376
Total investment at beginning of year	**$5,190**	$5,177	$4,837
Return on investment	**11.6%**	11.4%	8.9%

(a) Interest expense on beginning-of-year debt and capital leases.
(b) Assumes after-tax interest cost of approximately 6.5% on beginning-of-year present value of operating leases for 1990, 1989 and 1988.
(c) Current assets less non-interest bearing current liabilities.
(d) Includes capital leases.

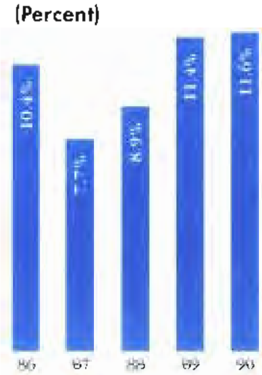
RETURN ON EQUITY
(Percent)



EARNINGS PER SHARE
(Dollars)



RETURN ON INVESTMENT
(Percent)



FINANCIAL POLICIES

Capital structure decisions require balancing the lower cost of debt capital with the benefits of maintaining financial flexibility. The following policies guide our financial philosophy:

■ **Maintain strong investment grade ratings on debt.** Our long-term debt is rated A+, A3 and A by Duff & Phelps, Moody's and Standard & Poor's, respectively. Our commercial paper is rated D-1+, P-2 and A-1 by Duff & Phelps, Moody's and Standard & Poor's, respectively.

■ **Maintain a debt ratio within a range of 45% to 65%.** Our debt ratio is conservatively defined. Debt and equivalents consist of long- and short-term debt, capital leases and the present value of operating leases which extend beyond one year.

A debt ratio range enables management to respond to changes in the economic and retail environments. A debt ratio near the bottom of the range provides the financial capacity required to pursue strategic opportunities and continues to efficiently leverage shareholder investment. A debt ratio at the upper end of the range results from taking advantage of strategic opportunities. The increase in our debt ratio over the past several years reflects significant real estate acquisitions to facilitate Target's rapid growth, our stock repurchase programs and the acquisition of Marshall Field's.

Over the next five years, our debt ratio is expected to decline to approximately 55%, even while we support significant additional growth. We are comfortable with our current leverage because cash flow generated from operations is strong and substantially exceeds our debt service. This debt is primarily long-term with an average maturity of 10 years and with fixed interest rates at an average rate of 9.4%. Without capital reinvestment, internal cash flow from earnings and the depreciation generated by owning the majority of our stores would permit repayment of all outstanding debt in approximately five years. However, shareholder value is best served by continuing to invest in current strategies.

■ **Limit future capital expenditure commitments to projected internally generated funds.** The allocation of funds is based on satisfactory current ROI performance and thorough evaluation of each major project. Capital is allocated first to remodeling existing stores, followed by opening new stores in existing markets and then to new stores in new markets. This priority protects existing market share and provides the best prospects for achieving profitable long-term growth. While our capital planning process projects forward five years, only a small portion of 1992 expenditures, and none of the 1993-1995 investments, are committed at this time. If economic conditions deteriorate, we have the flexibility to defer or cancel the majority of our five-year capital plan.

Debt Ratio	**1990**	1989	1988
Debt and equivalents			
Commercial paper	**$ 104**	$ 234	$ 148
Long-term debt (a)	**3,935**	2,582	2,478
Present value of operating leases	**413**	395	414
Total debt and equivalents	**$4,452**	$3,211	$3,040
Capitalization			
Debt and equivalents	**$4,452**	$3,211	$3,040
Deferred items and preferred stock, net	**372**	226	276
Common shareholders' investment	**2,048**	1,753	1,861
Total capitalization	**$6,872**	$5,190	$5,177
Debt Ratio	**65%**	62%	59%

(a) Includes capital leases and current portion of debt and capital leases.

INVESTMENT RATINGS

LONG-TERM DEBT:

Duff & Phelps	*A+*
Moody's	*A3*
Standard & Poor's	*A*

COMMERCIAL PAPER:

Duff & Phelps	*D-1+*
Moody's	*P-2*
Standard & Poor's	*A-1*

CAPITALIZATION
(Thousands)

■ *Debt & Equivalents*
■ *Total Capitalization*

CASH FLOW FROM OPERATIONS
(Millions)

CAPITAL INVESTMENT

In 1990, capital investment totaled $1.79 billion, including $1.05 billion for the acquisition of Marshall Field's. Capital investment for 1991 is expected to approximate $1 billion. In addition to new stores, capital is invested in remodeling stores, improving distribution and upgrading systems and technology. The majority of our capital investment continues to be allocated to Target and Mervyn's, due to their proven records of successful expansion and profitable growth.

Capital Investment	**1990**	1989	1988
Capital expenditures	**$1,740**	$603	$681
Present value of new operating leases	**48**	19	56
Total	**$1,788**	$622	$737

SHAREHOLDER RETURN

■ **Dividends.** To complement our objective of providing shareholders with a superior return on their investment, it is our policy to make regular annual increases in common stock dividends.

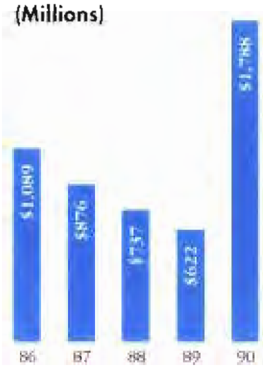
Dividends declared in 1990 increased 15% to $1.35 per share, compared with $1.17 per share declared in 1989.

The quarterly dividend paid in the first quarter of 1991 was increased to $.36 per share, representing an annualized dividend of $1.44 per share.

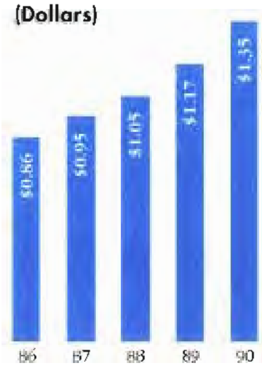
■ **Market Price Per Share.** The price of our common stock is determined by trading activity on the major stock exchanges. The price reflects the market's view of our performance and prospects, as well as industry and general economic conditions. Our common stock closed at $65.75 at February 2, 1991 compared with $61.75 on February 3, 1990. This increase of 6% compares to an increase of 4% for the Standard & Poor's 500 Index.

On March 28, 1991 there were 12,680 shareholders of record and the common stock price was $70 per share.

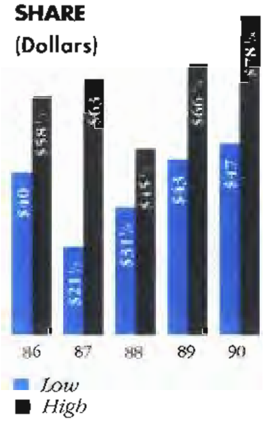
CAPITAL INVESTMENT
(Millions)



DIVIDENDS PER SHARE
(Dollars)



MARKET PRICE PER SHARE
(Dollars)



CONSOLIDATED RESULTS OF OPERATIONS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	**1990**	1989	1988
Revenues	**$14,739**	$13,644	$12,204
Costs and Expenses			
Cost of retail sales, buying and occupancy	**10,652**	9,890	8,980
Selling, publicity and administrative	**2,478**	2,264	2,038
Depreciation	**369**	315	290
Interest expense, net	**325**	267	218
Taxes other than income taxes	**256**	230	206
Total Costs and Expenses	**14,080**	12,966	11,732
Earnings Before Income Taxes and Cumulative Effects of Accounting Changes	**659**	678	472
Provision for Income Taxes	**249**	268	185
Net Earnings Before Cumulative Effects of Accounting Changes	**410**	410	287
Cumulative Effects of Accounting Changes:			
Income taxes	**54**	–	–
Postretirement health care benefits	**(52)**	–	–
Net Earnings	**$ 412**	$ 410	$ 287
Primary Earnings Per Share:			
Net Earnings Before Cumulative Effects of Accounting Changes	**$ 5.41**	$ 5.37	$ 3.45
Cumulative Effects of Accounting Changes:			
Income taxes	**.76**	–	–
Postretirement health care benefits	**(.73)**	–	–
Net Earnings	**$ 5.44**	$ 5.37	$ 3.45
Fully Diluted Earnings Per Share:			
Net Earnings Before Cumulative Effects of Accounting Changes	**$ 5.17**	$ 5.35	$ 3.45
Cumulative Effects of Accounting Changes:			
Income taxes	**.72**	–	–
Postretirement health care benefits	**(.69)**	–	–
Net Earnings	**$ 5.20**	$ 5.35	$ 3.45
Average Common Shares Outstanding *(Millions)*:			
Primary	**71.3**	76.3	83.3
Fully Diluted	**75.7**	76.6	83.3

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

ANALYSIS OF OPERATIONS

Revenues from our three operating divisions increased 13% in 1990, on a 52-week basis, primarily due to the Corporation's acquisition of Marshall Field's and other store expansion. Comparable-store revenues (revenues from stores open longer than 12 months) rose 3%. These results follow a total revenue increase of 14% and a comparable-store revenue increase of 6% in 1989.

Net earnings of $412 million for 1990 were comparable to $410 million in 1989. Earnings in 1989 rose 43% following a 26% increase in 1988. Fully diluted earnings per share were $5.20, a decrease of 3% following a 55% increase in 1989 and a 43% increase in 1988. The difference between the percentage changes in net earnings and fully diluted earnings per share is due to the impact of the convertible preferred stock and the impact of the 1988 and 1989 stock repurchases.

The 1990 earnings per share reflect solid performances from our base businesses and are after absorbing the negative impacts of $.23 per share for the Employee Stock Ownership Plan (ESOP), approximately $.10 per share for expenses associated with the acquisition of Marshall Field's (net of its profit contribution) and an incremental $.49 per share of LIFO expense (excluding Marshall Field's LIFO credit).

The following table illustrates the impact of the major factors contributing to the change in fully diluted earnings per share since 1988:

Variance Analysis:	1990 vs. 1989	1989 vs. 1988
Prior year's fully diluted earnings per share	$5.35	$ 3.45
Change in fully diluted earnings per share due to:		
Revenues	.91	.66
Gross margin rate	.04	.60
Operating expense rate	(.67)	.21
Employee stock ownership plan, net (a)	(.18)	(.05)
Stock repurchase, net (b)	–	.22
Interest expense, net	(.30)	(.11)
Corporate expense and other factors, net	.02	.37
Accounting changes, net	.03	–
Fully diluted earnings per share	**$5.20**	$ 5.35

(a) Includes the interest expense impact from the ESOP (as defined on page 22) and the effect of related share repurchase.
(b) Includes the impact of interest incurred on debt issued to finance non-ESOP stock repurchases for 1989 and 1988.

Changes in our revenue mix, primarily the result of the acquisition of Marshall Field's, affected changes in our revenues, gross margin rate and our operating expense rate for 1990. New revenues from Marshall Field's, a higher-margin operation, resulted in a higher overall gross margin effect. This partially understates the impact of the weakened economy on gross margin. If the revenue mix had remained constant in 1990, the gross margin effect would have been $(.20).

In addition, the change in revenue mix affected the operating expense rate. Because of Marshall Field's higher operating expense rate and the effect of one-time acquisition-related charges, the operating expense rate was unfavorably affected. If the revenue mix had remained constant in 1990, the operating expense rate would have affected net earnings per share by $(.39).

REVENUES

All three operating divisions achieved revenue growth during 1990. Target's growth was fueled by its aggressive expansion over the past few years. Revenue growth at Mervyn's was due to increased comparable-store sales, remodeling of stores and continued expansion within its existing markets. The Department Store Division's (DSD) revenue growth was up sharply with the addition of Marshall Field's.

Revenue Growth	1990		1989		1988	
	All Stores	Comp. Stores	All Stores	Comp. Stores	All Stores	Comp. Stores
Target	10%	4%	17%	6%	19%	3%
Mervyn's	6	4	12	8	7	1
DSD	41	–	5	5	9	9
Total*	13%	3%	14%	6%	14%	3%

1989 was a 53-week year; percentages shown for 1990 and 1989 are on a 52-week basis.
*Excludes Lechmere.

One measure used to evaluate store productivity is revenues per square foot. Growth in 1990 revenues per square foot was affected by the weakened economy. DSD's decrease in revenues per square foot reflects the impact of Marshall Field's lower sales per square foot, an area of future opportunity as a result of the acquisition.

Revenues Per Square Foot* *(unaudited)* *(dollars)*	1990	1989	1988
Target	$198	$197	$192
Mervyn's	230	224	209
DSD	222	233	222

*Thirteen-month average retail square feet.

Finance charge revenues from sales using our internal credit cards are included in revenues.

Internal Credit	1990	1989	1988
Finance charge revenues	$ 168	$ 161	$ 147
Internal credit sales	3,083	2,653	2,452

GROSS MARGIN RATE

Our gross margin rate (excluding buying and occupancy costs) improved slightly during 1990. This improvement reflects the higher gross margin of Marshall Field's and an increase in gross margin at Target. This was partially offset by increased markdowns at both Mervyn's and the Department Stores due to the deteriorating economic conditions in the last half of 1990 and substantially higher LIFO expense.

- **Target's** gross margin rate improved as all stores moved to a modified promotional strategy and implemented tighter inventory controls, which was partially offset by higher LIFO expense.
- **Mervyn's** gross margin rate declined, reflecting higher markdowns, in response to increased promotions from competitors, and higher 1990 LIFO expense.
- **DSD's** gross margin rate declined slightly due to increased markdowns necessitated by a highly competitive retail environment, partially offset by Marshall Field's LIFO credit.

Improvement in the overall gross margin rate in 1989 compared with 1988 was primarily due to substantially lower 1989 LIFO expense at all divisions, a lower markdown rate at Target and better inventory content and controls at Mervyn's.

OPERATING EXPENSE RATE

Our overall operating expense rate increased substantially in 1990, a result of increasing expense rates at Target and the Department Store Division.

- **Target's** operating expense rate increased, reflecting the implementation of enhanced customer service programs which were not fully leveraged by sales increases due to the slowing economy.
- **Mervyn's** operating expense rate improved for the fifth consecutive year as a result of solid sales growth and continued emphasis on expense control.
- **DSD's** operating expense rate increased substantially, primarily due to increases in operating expenses not matched by increases in sales, a result of the poor economic environment. Additionally, the operating expense rate was affected by higher depreciation and one-time charges related to the Marshall Field's acquisition.

The 1989 overall operating expense rate improved from 1988. Continued aggressive expense control at Mervyn's and strong sales gains at Target contributed to the improvement.

Operating expenses include buying and occupancy costs, publicity and administrative expenses, depreciation and taxes other than income taxes. Rent expense, included in buying and occupancy, was $95 million, $90 million and $93 million in 1990, 1989 and 1988, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

An ESOP was established prior to the end of 1989 to enhance our employee benefit programs. The ESOP was funded through the issuance of convertible preferred stock. The impact of the employee stock ownership plan, as shown in the variance analysis table, includes the net earnings impact associated with the ESOP, the impact of the October 1989 stock repurchase (including related interest expense) attributable to common stock equivalents for ESOP conversion requirements, the tax benefit related to the deductibility of preferred dividends and adjustments related to the fully diluted earnings per share calculation.

STOCK REPURCHASES

The Corporation repurchased shares of its common stock in 1989 and 1988. As a result of reducing the number of common shares outstanding, the stock repurchases favorably impacted earnings per share calculations in 1989.

INTEREST EXPENSE

Interest costs increased during 1990 due to higher levels of debt required for the continued growth at Target and Mervyn's, and the Marshall Field's acquisition. In 1990, $1.5 billion of new long-term debt was issued at an average interest rate of 9.7%, resulting in an average interest cost on total debt of 9.4% at year-end 1990.

Components of Interest Expense, Net	1990	1989	1988
Interest on debt	**$309**	$267	$214
Interest on capital leases	**15**	15	17
Interest impact of ESOP*	**21**	1	–
Interest cost capitalized	**(8)**	(10)	(7)
Interest income	**(12)**	(6)	(6)
Net expense	**$325**	$267	$218

*Includes interest of $35 million and $2 million in 1990 and 1989, respectively, incurred on debt to finance the 1989 repurchase of common stock designated to satisfy future conversion requirements of the ESOP, offset by interest income received from the ESOP of $34 million and $2 million in 1990 and 1989, respectively. The ESOP expense for the Corporation consists of both contribution expense and interest expense; the interest expense portion was $20 million and $1 million in 1990 and 1989, respectively.

CORPORATE EXPENSE AND OTHER

Corporate expense and other includes corporate headquarters expense, corporate charitable contributions and other miscellaneous items.

In addition, it includes the operating results of Lechmere through September 30, 1989, the effective date of its sale and, prior to 1990, the net results of test strategies. It also includes a $10 million reversal in 1989 of a $35 million reserve established in 1988 for the discontinuation of a test strategy.

INCOME TAXES

Effective tax rates for the past three years vary from the federal statutory rate as follows:

Percent of Earnings Before Income Taxes	1990	1989	1988
Statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefit	4.6	4.3	4.7
Other	(.8)	1.2	.5
Effective tax rate	37.8%	39.5%	39.2%

The lower tax rate in 1990 compared with 1989 and 1988 is primarily due to the tax benefit from the deductibility of dividends paid on the ESOP preferred stock.

The components of the provision for income taxes for the past three years are as follows:

Income Tax Provision/(Benefit)	1990	1989	1988
Current:			
Federal	$218	$231	$175
State	49	46	39
	267	277	214
Deferred:			
Federal	(15)	(8)	(24)
State	(3)	(1)	(5)
	(18)	(9)	(29)
Total	$249	$268	$185

The deferred tax provision is comprised of the following temporary differences:

Deferred Tax Provision	1990	1989	1988
Depreciation expense	$ 19	$ 24	$ 31
Installment sales deferred income	(32)	(33)	(29)
Test strategy reserve	–	11	(13)
Other	(5)	(11)	(18)
Provision for deferred taxes	$(18)	$ (9)	$(29)

Tax legislation eliminated installment sales reporting with 1990 being the last year of a four-year transition period. The types of temporary differences shown above are also those which give rise to the deferred income tax asset/liability.

CUMULATIVE EFFECTS OF ACCOUNTING CHANGES

At the beginning of the 1990 fiscal year, the provisions of Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes" were adopted. The Statement requires the liability method of accounting for income taxes rather than the deferred method previously used. The cumulative effect of this accounting change was to increase net earnings by $54 million or $.72 per share. The impact of this accounting change on the 1990 income tax provision was not material.

The Corporation also changed to the accrual method of accounting for postretirement health care benefits at the beginning of fiscal year 1990. In prior years, expense was recognized when claims were paid. The projected benefit obligation of $48 million (net of tax) relating to prior service cost was recognized as a cumulative effect of accounting change as of beginning-of-year 1990. In December 1990, SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," was issued. Following this, the Corporation increased the beginning-of-year net charge by $4 million. The method of accounting for postretirement health care benefits conforms to the provisions of the new standard. The total cumulative effect of this accounting change was to decrease net earnings by $52 million or $.69 per share.

PER SHARE DATA

Primary earnings per share are computed by dividing net earnings less dividend requirements on ESOP preferred stock by the average common stock and common stock equivalents outstanding during the period. Fully diluted earnings per share also assumes conversion of the ESOP preferred stock into common stock. Additionally, it assumes adjustment of net earnings for the additional expense required to fund the ESOP debt service resulting from the assumed replacement of the ESOP preferred dividends with common stock dividends. The 1988 primary and fully diluted earnings per share computations are based upon weighted average shares outstanding as common stock equivalents did not materially dilute earnings per share.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	**February 2, 1991**	February 3, 1990
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 92**	$ 103
Accounts receivable	**1,407**	1,138
Merchandise inventories	**2,016**	1,827
Other	**143**	39
Total Current Assets	**3,658**	3,107
Property and Equipment		
Land	**723**	545
Buildings and improvements	**3,455**	2,749
Fixtures and equipment	**1,745**	1,422
Construction-in-progress	**210**	157
Accumulated depreciation	**(1,608)**	(1,350)
Net Property and Equipment	**4,525**	3,523
Other	**341**	54
Total Assets	**$8,524**	$6,684
LIABILITIES AND COMMON SHAREHOLDERS' INVESTMENT		
Current Liabilities		
Commercial paper	**$ 104**	$ 234
Accounts payable	**1,267**	1,166
Accrued liabilities	**638**	536
Income taxes – payable and current deferred	**160**	187
Current portion of long-term debt	**253**	72
Total Current Liabilities	**2,422**	2,195
Long-Term Debt	**3,682**	2,510
Deferred Income Taxes and Other	**347**	225
Convertible Preferred Stock	**379**	379
Loan to ESOP	**(354)**	(378)
Common Shareholders' Investment		
Common stock	**71**	71
Additional paid-in capital	**41**	34
Retained earnings	**1,936**	1,648
Total Common Shareholders' Investment	**2,048**	1,753
Total Liabilities and Common Shareholders' Investment	**$8,524**	$6,684

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

CASH EQUIVALENTS

Cash equivalents represent short-term investments with a maturity of three months or less at the time of purchase. Short-term investments are recorded at cost, which approximates market.

ACCOUNTS RECEIVABLE

Customer accounts receivable are classified as current assets and include some which are due after one year, consistent with industry practice. Accounts receivable generally are written off when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. The allowance for doubtful accounts is based on past bad debt experience and on the ages of the various accounts. The allowance for doubtful accounts was $44 million and $37 million at year-end 1990 and 1989, respectively.

INVENTORIES

Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis. Under this method, the cost of goods sold, as reported in the Results of Operations, represents current cost, thereby reflecting the effect of rising prices associated with inflation. The accumulated LIFO provision was $200 million and $169 million at year-end 1990 and 1989, respectively.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost less accumulated depreciation. For financial reporting, depreciation on property is computed using the straight-line method over estimated useful lives. Accelerated depreciation methods generally are used for income tax purposes.

ACCOUNTS PAYABLE

Outstanding drafts included in accounts payable were $296 million and $276 million at year-end 1990 and 1989, respectively.

ACQUISITION

The acquisition of the common stock of Marshall Field & Company was completed on June 23, 1990. The cash purchase price was $1.05 billion, with the transaction accounted for using the purchase method of accounting. The acquisition was financed through a combination of internally generated funds and a mix of debt instruments.

Marshall Field's results of operations are included in the 1990 financial statements from June 24, 1990, the effective date of the acquisition. The negative effect of the acquisition on 1990 earnings per share was approximately $.10 per share, as Marshall Field's profitable operating contribution was offset by interest on debt used to finance the acquisition.

The following pro forma information reflects the combined operations of Marshall Field's and Dayton Hudson Corporation assuming the acquisition had occurred at the beginning of each of the following periods:

Pro Forma Information *(unaudited)*	**1990**	1989
Revenues	**$15,138**	$14,733
Net earnings	**400**	388
Fully diluted earnings per share	**5.03**	5.06

The pro forma results do not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they necessarily indicative of the results of future combined operations.

SALE OF LECHMERE

Lechmere was sold in 1989 for approximately book value plus selling expenses. This transaction was not material to the consolidated financial statements. Operating results include Lechmere through September 30, 1989, the effective date of the sale.

COMMITMENTS AND CONTINGENCIES

Commitments for the purchase of real estate, construction of new facilities, remodeling of existing facilities and other equipment purchases amounted to approximately $186 million at February 2, 1991.

Regular contact with the general public, other businesses and governmental entities subjects the Corporation to claims and litigation arising out of the ordinary course of business. Considering the insurance coverage in place for a portion of the claims and litigation, and noting that the ultimate consequences cannot be accurately predicted, management and legal counsel believe that presently identified claims and litigation will not have a material adverse effect on the Corporation's operations or its financial condition.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	**1990**	1989	1988
Operating Activities			
Net earnings	**$ 412**	$410	$287
Reconciliation to cash flow:			
Depreciation and amortization	**372**	319	292
Deferred tax provision	**(20)**	(10)	(29)
(Increase)/decrease in accounts receivable	**(116)**	91	(149)
(Increase) in inventory	**(36)**	(158)	(46)
Increase in accounts payable	**8**	110	1
(Decrease)/increase in accrued liabilities	**(15)**	(29)	127
(Decrease)/increase in income taxes payable	**(13)**	33	35
Other	**33**	(27)	19
Cash Flow Provided by Operations	**625**	739	537
Investing Activities			
Acquisition of Marshall Field's	**1,054**	–	–
Expenditures for property and equipment	**678**	619	690
Disposals of property and equipment	**(2)**	(234)	(18)
Cash Flow Required for Investing Activities	**1,730**	385	672
Net Financing (Requirements)/Sources	**(1,105)**	354	(135)
Financing Activities			
(Decrease)/increase in commercial paper	**(130)**	86	(205)
Additions to long-term debt	**1,502**	242	691
Reductions of long-term debt	**(165)**	(125)	(56)
Repurchase of common stock	**–**	(440)	(329)
Dividends paid	**(116)**	(85)	(85)
Other	**3**	18	(3)
Cash Flow Provided/(Used) by Financing Activities	**1,094**	(304)	13
Net (Decrease)/Increase in Cash and Cash Equivalents	**(11)**	50	(122)
Cash and cash equivalents at beginning of year	**103**	53	175
Cash and cash equivalents at end of year	**$ 92**	$103	$ 53

Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this annual report.

Supplemental cash flow information:

- Noncash investing and financing activities not reported in the Statements of Cash Flows include the 1989 issuance of $379 million of ESOP preferred stock in consideration for a $379 million 15-year note from the ESOP.
- The 1989 reconciliation of net earnings to cash flow and disposals of property includes the sale of Lechmere.
- Interest paid (including interest capitalized) in 1990, 1989 and 1988 was $327 million, $269 million and $196 million, respectively.
- Income tax payments of $257 million, $248 million and $179 million were made in 1990, 1989 and 1988, respectively.

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

ANALYSIS OF CASH FLOW

Cash flow from operations was $625 million in 1990. Together with net proceeds from issuing $1.5 billion of debt, these cash flows funded the $1.05 billion acquisition of Marshall Field's, other capital expenditures of $678 million, debt principal payments of $165 million and $116 million of dividends.

LINES OF CREDIT

At year-end, credit was available in the form of a five-year revolving credit agreement for $250 million with eight lending institutions, a three-year revolving credit agreement for $125 million with six lending institutions and a two-year revolving credit agreement for $420 million with 22 lending institutions.

A fee is paid for the availability of the revolving credit agreements and an option is available to borrow at the prime rate or other negotiated rates. In 1990 fees of $2 million were paid under these agreements. Fees in 1989 and 1988 were $1 million. There were no balances outstanding at February 2, 1991.

COMMERCIAL PAPER

At February 2, 1991, $304 million in commercial paper was outstanding at a weighted average interest rate of 7.0%, including $200 million classified as long-term debt. Interest rate swaps were used to reduce interest rate risk by effectively fixing rates on $200 million of variable-rate commercial paper.

At February 2, 1991, long-term revolving credit agreements supported the commercial paper. The Corporation intends the credit agreements to remain in effect for a period beyond one year. During the year, the average amount of commercial paper outstanding was $695 million, at a weighted average interest rate of 8.3%.

LONG-TERM OBLIGATIONS

During 1990, we issued $1.5 billion of long-term debt due 1994 to 2020 at rates ranging from 7.3% to 10.0%.

At year-end 1990 and 1989, long-term debt, including capital lease obligations, due beyond one year was:

Long-Term Debt	Feb. 2, 1991	Feb. 3, 1990
Commercial paper backed by revolving credit	$ 200	$ 200
7 1/4% to 11 1/4% unsecured notes and sinking fund notes and debentures due 1991 to 2020	3,300	2,125
Other debt	67	69
Capital lease obligations	115	116
Total	$3,682	$2,510

Required principal payments on long-term debt over the next five years, excluding commercial paper and capital lease obligations, will be $247 million in 1991, $182 million in 1992, $246 million in 1993, $147 million in 1994 and $247 million in 1995.

As a condition of certain borrowings, related land, buildings and equipment have been pledged as collateral. At year end, approximately $73 million of property and equipment served as collateral for these loans.

The present value of minimum lease payments for all operating leases with initial terms of over one year was approximately $413 million at year-end 1990 and $395 million at year-end 1989. These present values were calculated using an average interest rate in the year of inception for each lease. A weighted average interest rate of 11% was used to calculate the 1990 and 1989 present values.

Many of the long-term leases include options to renew, with renewal terms varying from five to 30 years. Certain leases also include options to purchase the property. Future minimum lease payments required under noncancellable lease agreements existing at the end of 1990 were:

Future Minimum Lease Payments	Operating Leases	Capital Leases
1991	$ 64	$ 21
1992	63	20
1993	61	19
1994	59	18
1995	57	18
After 1995	558	189
Total future minimum lease payments	$862	285
Less: Interest		(157)
Executory costs		(7)
Capitalized lease obligations, including current portion of $6		$121

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' INVESTMENT

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
January 30, 1988	$86	$23	$1,877	$1,986
Consolidated net earnings	–	–	287	287
Dividends declared	–	–	(85)	(85)
Stock option activity	–	2	–	2
Stock repurchase	(8)	–	(321)	(329)
January 28, 1989	78	25	1,758	1,861
Consolidated net earnings	–	–	410	410
Dividends declared	–	–	(87)	(87)
Stock option activity	–	9	–	9
Stock repurchase	(7)	–	(433)	(440)
February 3, 1990	71	34	1,648	1,753
Consolidated net earnings	–	–	412	412
Dividends declared	–	–	(124)	(124)
Stock option activity	–	7	–	7
February 2, 1991	**$71**	**$41**	**$1,936**	**$2,048**

Preferred Stock
Authorized 5,000,000 shares; Series B ESOP Convertible Preferred Stock, $.01 par value, 438,124 shares issued and outstanding at February 2, 1991 and 438,353 shares issued and outstanding at February 3, 1990

Common Stock
Authorized 500,000,000 shares $1.00 par value; 71,061,854 shares issued and outstanding at February 2, 1991 and 70,874,232 shares issued and outstanding at February 3, 1990.

Junior Preferred Stock Rights
In 1986, the Corporation declared a distribution of preferred share repurchase rights. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of Dayton Hudson common stock. Each right will entitle shareholders to buy one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $150, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20% or more of Dayton Hudson common stock or announces a tender offer to acquire 30% or more of the common stock.

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

SHARE REPURCHASES

During 1989, 7 million shares were repurchased at a price of $62.875 per share. During 1988, the repurchase of 8.2 million shares was completed at an average price of $40 per share.

STOCK OPTIONS AND PERFORMANCE SHARES

The Corporation has a stock option plan for key employees. Grants have included stock options, performance shares or both. Options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. Twelve months after the grant date, 25% of the majority of options granted become exercisable with another 25% after each succeeding 12 months. These options are cumulatively exercisable and expire no later than 10 years after the date of the grant. Stock options are awarded at fair market value on the grant date and when exercised, proceeds are credited to common shareholders' investment and no expense is incurred.

Performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period. Compensation expense on performance shares is recorded based on the current market price of the Corporation's common stock and the extent to which the performance goals are being met. Expense of $3 million was recorded in 1990 and $2 million was recorded in both 1989 and 1988.

The number of shares of unissued common stock reserved for future grants under the plan was 3,804,464 at the end of 1990 and 4,015,502 at the end of 1989.

Options and Performance Shares Outstanding

	Options			
	Number of Shares	Price Per Share	Shares Exer-cisable	Perform-ance Shares
January 30, 1988	1,194,149	$ 9.31 - $ 53.25	713,808	116,272
Granted	166,470	35.19 - 40.13		
Cancelled	(75,248)	33.88 - 53.19		
Exercised	(108,038)	9.31 - 39.94		
January 28, 1989	1,177,333	9.97 - 53.25	740,593	138,868
Granted	240,111	46.63 - 62.56		
Cancelled	(55,674)	30.25 - 53.19		
Exercised	(263,885)	9.97 - 53.19		
February 3, 1990	1,097,885	12.36 - 62.56	634,249	174,556
Granted	174,679	69.56 - 75.50		
Cancelled	(3,034)	35.19 - 53.00		
Exercised	(197,181)	12.36 - 53.19		
February 2, 1991	**1,072,349**	**$14.30 - $75.50**	**571,948**	**219,091**

SUPPLEMENTAL RETIREMENT PLAN

The Corporation sponsors a defined contribution employee benefit plan. Employees who meet certain eligibility requirements (based primarily on age and length of employment) can participate in the plan by setting aside up to 15% of their compensation. Prior to the end of 1989, the plan was enhanced to include an Employee Stock Ownership Plan (ESOP) which was implemented in April 1990. The provisions of the plan amendment increased the employer match from 50% to 100% of each employee's contribution up to 5% of total compensation. The Corporation's contribution to the plan (the employer match) consists of contributions to the ESOP.

The Corporation issued 438,353 shares of $.01 par value Series B ESOP Convertible Preferred Stock (ESOP preferred stock) at $864.60 per share to the concurrently established ESOP. The original issue value of the ESOP preferred stock is guaranteed by the Corporation with each share convertible into 10 shares of the Corporation's common stock. Under certain limited circumstances, the ESOP preferred stock may be redeemed at the option of the Corporation or the ESOP. The ESOP preferred shares have voting rights equal to the equivalent number of shares of common stock and are entitled to cumulative dividends of $56.20 per share each year.

The Corporation loaned $379 million at a 9.2% interest rate to the ESOP with the loan maturing in 15 years. Proceeds from the loan were used by the ESOP to purchase the 438,353 shares of ESOP preferred stock. Contributions made to the ESOP, plus the dividends paid on the preferred stock held by the ESOP, are used to repay the loan.

In 1990, $30 million in contribution expense was recognized. The 1989 and 1988 plan expense was $11 million and $9 million, respectively.

PENSION PLANS

The Corporation has three defined benefit pension plans which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation during the last five years of employment.

Contributions to the pension plans, which are made solely by the Corporation, are determined by an outside actuarial firm. To compute net pension cost, the actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to service periods.

The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Components of Net Pension Credit	**1990**	1989	1988
Service cost-benefits earned during the period	**$15**	$11	$10
Interest cost on projected benefit obligation	**24**	22	20
Return on assets–actual	**4**	(55)	(36)
–deferred	**(33)**	28	11
Amortization of transitional asset	**(7)**	(8)	(8)
Net pension expense/(credit)	**$ 3**	$(2)	$(3)

Actuarial Assumptions	**1990**	1989	1988
Discount rate	**8.8%**	8.8%	9.0%
Expected long-term rate of return on plan assets	**9.5**	9.5	9.5
Average assumed rate of compensation increase	**7.0**	7.0	6.9

Funded Status	December 31, **1990**	1989
Actuarial present value of:		
Vested benefit obligation	**$216**	$211
Accumulated benefit obligation	**228**	221
Projected benefit obligation	**297**	274
Fair market value of plan assets *	**306**	331
Plan assets in excess of projected benefit obligation	**9**	57
Unrecognized prior service cost	**6**	7
Unrecognized net actuarial loss/(gain)	**4**	(34)
Unrecognized transitional asset	**(7)**	(15)
Prepaid pension asset	**$ 12**	$ 15

*Plan assets consist primarily of equity securities and fixed income securities.

POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension and other supplemental benefits, certain health care benefits are provided for retired employees. Employees become eligible for these benefits if they meet minimum age and service requirements, are eligible for retirement benefits and if they agree to contribute a portion of the cost. The Corporation has the right to modify or terminate these benefits.

Net Periodic Cost	**1990**
Service cost - benefits earned during the period	**$1**
Interest cost on accumulated benefit	7
Net cost	**$8**

Accumulated Postretirement Benefit Obligation	**December 31, 1990**
Retirees	**$48**
Fully eligible active plan participants	**28**
Other active plan participants	**10**
Total accumulated postretirement benefit obligation	**$86**

A 15% increase in the cost of covered health care benefits was assumed for fiscal 1991. This rate is assumed to decrease incrementally to 9% after ten years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $7 million at year-end 1990 and the net periodic cost by $1 million for the year. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 8.8%.

The expense for postretirement health care benefits was approximately $4 million in 1989 and $2 million in 1988.

Total operating profit increased 3% in 1990 as each operating division contributed at a record level. Target posted its 16th consecutive year of record operating profit with a 4% increase over last year. Mervyn's had a 2% increase and DSD a 2% increase.

- **Target's** increase in operating profit primarily reflected solid sales growth and an improved gross margin rate.

- **Mervyn's** operating profit improvement reflected continued improvement in sales and expense management.

- **DSD's** operating profit reached a record level due to the increase in sales, a result of the acquisition of Marshall Field's, and Marshall Field's LIFO credit.

(Millions of Dollars)	**1990**	1989*	1988	1987	1986	1985
Revenues						
Target	**$ 8,175**	$ 7,519	$ 6,331	$ 5,306	$4,355	$3,931
Mervyn's	**4,055**	3,858	3,411	3,183	2,862	2,527
Department Store Division	**2,509**	1,801	1,693	1,552	1,566	1,448
Other	–	466	769	636	476	349
Total	**$14,739**	$13,644	$12,204	$10,677	$9,259	$8,255
Operating profit						
Target	**$ 466**	$ 449	$ 341	$ 323	$ 311	$ 278
Mervyn's	**366**	358	256	150	160	245
Department Store Division	**183**	179	159	122	166	122
Total	**1,015**	986	756	595	637	645
Interest expense, net	**325**	267	218	152	118	100
Corporate and other	**31**	41	66	44	25	27
Earnings before income taxes	**$ 659**	$ 678	$ 472	$ 399	$ 494	$ 518
Operating profit as a percent of revenues						
Target	**5.7%**	6.0%	5.4%	6.1%	7.1%	7.1%
Mervyn's	**9.0**	9.3	7.5	4.7	5.6	9.7
Department Store Division	**7.3**	10.0	9.4	7.9	10.6	8.4
Assets						
Target	**$ 3,722**	$ 3,505	$ 2,982	$ 2,638	$2,179	$1,519
Mervyn's	**2,439**	2,260	2,166	2,114	1,817	1,615
Department Store Division	**2,261**	838	808	761	739	738
Corporate and other	**102**	81	567	563	547	546
Total	**$ 8,524**	$ 6,684	$ 6,523	$ 6,076	$5,282	$4,418
Depreciation						
Target	**$ 190**	$ 170	$ 146	$ 103	$ 76	$ 70
Mervyn's	**107**	98	91	82	68	54
Department Store Division	**69**	34	33	30	28	27
Corporate and other	**3**	13	20	16	11	7
Total	**$ 369**	$ 315	$ 290	$ 231	$ 183	$ 158
Capital expenditures						
Target	**$ 374**	$ 414	$ 457	$ 501	$ 598	$ 138
Mervyn's	**210**	133	154	207	243	177
Department Store Division	**1,155**	37	31	49	31	37
Corporate and other	**1**	19	39	82	69	51
Total	**$ 1,740**	$ 603	$ 681	$ 839	$ 941	$ 403

* Consisted of 53 weeks.
Other includes Lechmere through September 1989.

QUARTERLY RESULTS

(Millions of Dollars, Except Per-Share Data) (Unaudited)

The Corporation reported a double-digit increase in total revenues and a moderate increase in comparable-store revenues in all four quarters of 1990. However, net earnings for the second half of 1990 were below last year's record earnings primarily due to difficult economic conditions.

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data:

- Costs directly associated with revenues, such as cost of goods sold and additional rent on leased stores, are allocated based on revenues.
- Certain other costs not directly associated with revenues, such as benefit plan expenses, bonuses, costs of opening new stores and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1990	1989	**1990**	1989	**1990**	1989	**1990**	1989	**1990**	1989
Revenues	**$3,007**	$2,826	**$3,242**	$3,097	**$3,625**	$3,236	**$4,865**	$4,485	**$14,739**	$13,644
Gross Profit (a)	**$ 840**	$ 768	**$ 883**	$ 832	**$1,007**	$ 867	**$1,357**	$1,287	**$ 4,087**	$ 3,754
Net Earnings Before Cumulative Effects of Accounting Changes	**$ 58**	$ 40	**$ 59**	$ 56	**$ 58**	$ 64	**$ 235**	$ 250	**$ 410**	$ 410
Net Earnings	**$ 60 (d)**	$ 40	**$ 59**	$ 56	**$ 58**	$ 64	**$ 235**	$ 250	**$ 412**	$ 410
Fully Diluted Earnings Per Share Before Cumulative Effect of Accounting Changes (b)	**$ .70**	$ .51	**$ .73**	$ .72	**$ .70**	$ .83	**$ 3.05**	$ 3.45	**$ 5.17**	$ 5.35
Fully Diluted Earnings Per Share (b)	**$ .73 (d)**	$ .51	**$ .73**	$ .72	**$ .70**	$ .83	**$ 3.05**	$ 3.45	**$ 5.20**	$ 5.35
Fully Diluted Averages Common Shares Outstanding (Millions) (c)	**75.7**	77.7	**75.7**	77.7	**75.6**	77.5	**75.7**	72.3	**75.7**	76.6
Quarterly Dividend Declared Per Share	**$ .33**	$ .28	**$ .33**	$ .28	**$ .33**	$ .28	**$ .36**	$ .33	**$ 1.35**	$ 1.17
Common Stock Price (e)										
High	**$ 71¾**	$ 48	**$ 78⅛**	$ 58	**$ 64½**	$ 64	**$ 65¾**	$ 66⅜	**$ 78⅛**	$ 66⅜
Low	**61**	43	**66¾**	47½	**47**	57⅞	**47⅜**	58⅛	**47**	43

(a) Gross profit is revenues less cost of retail sales, buying and occupancy.
(b) Fully diluted earnings per share are computed independently for each of the quarters presented. The sum of the quarterly earnings per share may not equal the total-year amount due to the impact of changes in quarterly average shares outstanding.
(c) Fully diluted common shares outstanding for all of 1990 and for fourth quarter and total year 1989 include the effect of common stock equivalents and assumed conversion of the ESOP preferred stock since date of issuance. Fully diluted average common shares outstanding for the first three quarters of 1989 are as originally reported.
(d) First quarter 1990 net earnings and fully diluted earnings per share have been restated by $4 million and $.05 per share, respectively, to reflect final accounting adjustments related to the adoption of SFAS No. 106.
(e) Dayton Hudson Corporation's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

The following table shows quarterly last-in, first-out (LIFO) expense and its impact on fully diluted earnings per share:

LIFO Expense/(Credit)*	**1990**		1989		1988	
Quarter	**Total**	**Per Share**	Total	Per Share	Total	Per Share
First	**$15**	**$.13**	$15	$.11	$12	$.09
Second	**15**	**.12**	13	.11	14	.10
Third	**4**	**.03**	4	.03	10	.07
Fourth	**(3)**	**(.03)**	(32)	(.26)	8	.06
Total year	**$31**	**$.25**	$ –	$ –	$44	$.32

*LIFO expense/(credit) per share is computed based on fully diluted average shares outstanding during each period. The sum of quarterly LIFO expense per share may not equal the total-year amount due to the impact of changes in average shares outstanding.

The allocation of LIFO expense is adjusted each quarter for changes in estimates of the retail inflation rate, inventory levels and markup levels. In the fourth quarter, a final adjustment is recorded for the difference between the prior quarters' estimates and actual LIFO expense. The increase in the 1990 LIFO provision is due primarily to a higher retail inventory inflation rate relative to a flat retail inflation rate in 1989. The 1990 LIFO provision was net of a LIFO credit, the result of the acquisition of Marshall Field's.

In 1989, the fourth quarter LIFO credit reflects a significantly lower than anticipated retail inventory inflation rate. The 1988 LIFO provision reflects a higher inflation rate and smaller growth in inventory levels due to fewer new store openings.

SUMMARY OF ACCOUNTING POLICIES

■ **Consolidation.** The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

■ **Fiscal Year.** Our fiscal year ends on the Saturday nearest January 31.

Fiscal Year	Ended	Weeks
1990	February 2, 1991	52
1989	February 3, 1990	53
1988	January 28, 1989	52

Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

■ **Reclassifications.** Various reclassifications have been made to the previously reported 1989 and 1988 amounts to conform with the 1990 presentation.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 2, 1991 and February 3, 1990, and the related consolidated results of operations, cash flows and common shareholders' investment for each of the three years in the period ended February 2, 1991. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at February 2, 1991 and February 3, 1990, and the consolidated results of their operations and cash flows for each of the three years in the period ended February 2, 1991, in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, in 1990 the Corporation changed its method of accounting for income taxes and postretirement health care benefits.

Ernst + Young

Minneapolis, Minnesota
March 22, 1991

SUMMARY FINANCIAL AND OPERATING DATA

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	**1990**	1989(a)	1988	1987	1986	1985	1984(a)	1983	1982	1981	1980
Income Statement Data											
Revenues	**$14,739**	13,644	12,204	10,677	9,259	8,255	7,519	6,518	5,286	4,624	3,778
Cost of retail sales, buying and occupancy	**$10,652**	9,890	8,980	7,950	6,778	5,977	5,462	4,709	3,774	3,326	2,722
Selling, publicity and administrative	**$ 2,478**	2,264	2,038	1,769	1,538	1,366	1,234	1,080	902	826	690
Depreciation	**$ 369**	315	290	231	183	158	145	123	99	85	62
Interest expense, net	**$ 325**	267	218	152	118	100	98	86	65	47	14
Earnings from continuing operations before income taxes	**$ 659**	678	472	399	494	518	453	416	358	261	230
Income taxes	**$ 249**	268	185	171	239	237	208	189	165	116	103
Net earnings: Continuing (b)	**$ 410**	410	287	228	255	281	245	227	193	145	127
Consolidated (c)	**$ 412**	410	287	228	310	284	259	246	207	173	147
Financial Position Data											
Working capital	**$ 1,236**	912	978	922	1,193	1,130	973	869	718	509	381
Property and equipment	**$ 4,525**	3,523	3,486	3,106	2,517	1,770	1,534	1,423	1,237	1,072	927
Total assets	**$ 8,524**	6,684	6,523	6,076	5,282	4,418	3,800	3,595	2,985	2,555	2,155
Long-term debt	**$ 3,682**	2,510	2,383	1,819	1,377	922	750	751	631	428	317
Convertible preferred stock	**$ 379**	379	–	–	–	–	–	–	–	–	–
Common shareholders' investment	**$ 2,048**	1,753	1,861	1,986	2,180	1,948	1,737	1,540	1,349	1,193	1,066
Per Common Share Data											
Fully diluted net earnings per share:											
Continuing (b)	**$ 5.17**	5.35	3.45	2.41	2.62	2.89	2.54	2.35	2.00	1.51	1.33
Consolidated (c)	**$ 5.20**	5.35	3.45	2.41	3.19	2.92	2.68	2.54	2.15	1.81	1.54
Cash dividend declared	**$ 1.35**	1.17	1.04½	.94½	.86	.78½	.69½	.62½	.57½	.52½	.47½
Market price - high	**$ 78⅛**	66⅜	45½	63	58½	48¾	37¼	40⅝	32⅛	15¾	13⅝
Market price - low	**$ 47**	43	31⅝	21½	40	35¼	26⅛	26¼	13½	10⅞	9⅛
Common shareholders' investment	**$ 28.82**	24.73	23.97	23.15	22.38	20.04	17.90	15.91	13.98	12.41	11.14
Other Data											
Return on beginning equity (common shareholders' investment):											
Continuing	**22.0%**	22.0	14.5	10.5	13.1	16.2	15.9	16.8	16.1	13.6	13.2
Consolidated	**22.1%**	22.0	14.5	10.5	15.9	16.3	16.8	18.2	17.3	16.3	15.2
Average common shares outstanding (millions)	**71.0**	75.9	83.3	94.8	97.3	97.1	96.9	96.6	96.2	95.8	95.2
Fully diluted average common shares outstanding (millions)	**75.7**	76.6	83.3	94.8	97.3	97.1	96.9	96.6	96.2	95.8	95.2
Capital expenditures	**$ 1,740**	603	681	839	941	403	336	321	268	238	247
Number of stores: Target	**420**	399	341	317	246	226	215	205	167	151	137
Mervyn's	**227**	221	213	199	175	148	126	109	92	80	69
Department Store Division	**61**	37	37	37	37	37	36	36	35	35	34
Total square footage (thousands)	**73,769**	65,191	58,596	55,028	45,890	42,051	38,956	36,602	31,422	29,453	27,603
Number of employees	**161,215**	144,267	127,766	134,008	111,492	98,086	101,106	93,585	85,433	79,720	72,088

The Summary Financial and Operating Data should be read in conjunction with the Financial Statements, Notes and Analysis on pages 20-33. Per-share amounts and shares outstanding reflect two-for-one common stock splits effective July 1983 and November 1981.

(a) Consisted of 53 weeks.

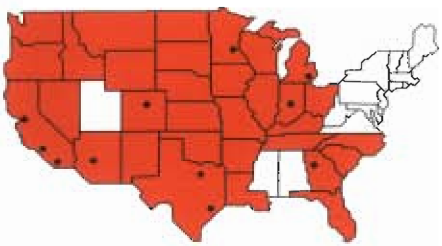
(b) Before extraordinary item and cumulative effects of accounting changes.

(c) Includes discontinued operations of real estate for 1980-1981, B. Dalton Bookseller for 1980-1986 and the gain on sale of B. Dalton Bookseller in 1986. Includes extraordinary charge of $32 million ($.33 per share) related to debt repurchase in 1986. Includes cumulative effects of accounting changes, net, of $2 million ($.03 per share) in 1990.

STORES AND LOCATIONS

TARGET

Target locations



	Retail Sq. Ft in thousands	No of stores
Arizona	1,344	13
Arkansas	288	3
California	10,579	102
Colorado	1,858	18
Florida	533	6
Georgia	1,471	15
Idaho	105	1
Illinois	607	7
Indiana	2,573	30
Iowa	1,330	16
Kansas	305	3
Kentucky	529	6
Louisiana	202	2
Michigan	3,001	29
Minnesota	2,745	23
Missouri	841	8
Montana	183	2
Nebraska	400	4
Nevada	504	5
New Mexico	315	3
North Carolina	479	5
North Dakota	386	4
Ohio	394	4
Oklahoma	780	8
Oregon	828	8
South Carolina	297	3
South Dakota	201	2
Tennessee	1,057	11
Texas	5,086	50
Washington	1,517	15
Wisconsin	1,321	12
Wyoming	182	2
Total	**42,241**	**420**

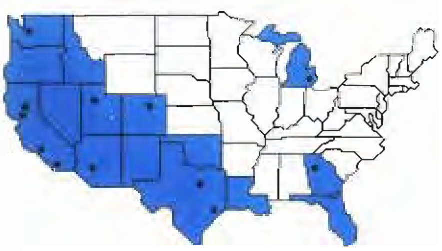
Major Markets

Greater Los Angeles	56
Minneapolis/St. Paul	20
Dallas/Ft. Worth	15
Detroit	15
Houston	15
Atlanta	14
San Francisco Bay Area	14
Denver	12
San Diego	12
Phoenix	11
Indianapolis	10

NUMBER OF STORES

MERVYN'S

Mervyn's locations

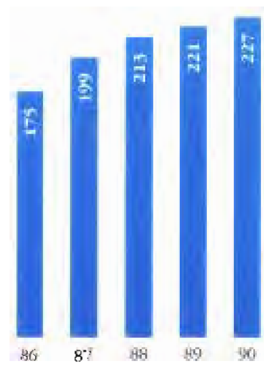


	Retail Sq. Ft. in thousands	No. of stores
Arizona	993	12
California	8,009	104
Colorado	850	11
Florida	76	1
Georgia	476	6
Idaho	83	1
Louisiana	538	7
Michigan	995	13
Nevada	423	6
New Mexico	180	2
Oklahoma	270	3
Oregon	504	6
Texas	3,117	38
Utah	531	6
Washington	928	11
Total	**17,973**	**227**

Major Markets

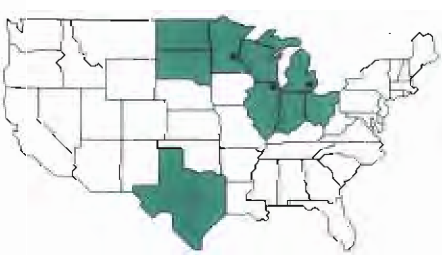
Greater Los Angeles	39
San Francisco Bay Area	21
Dallas/Ft. Worth	13
San Diego	10
Detroit	9
Houston	9
Phoenix	8
Atlanta	6
Denver	6
Sacramento	6
Salt Lake City	6
Seattle/Tacoma	6

NUMBER OF STORES



DEPARTMENT STORE DIVISION

Department Store locations



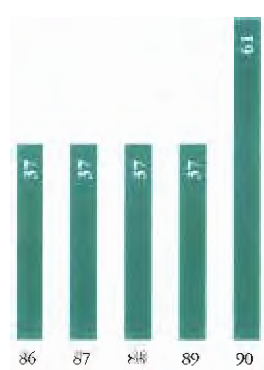
	Retail Sq. Ft. in thousands	No. of stores
Hudson's		
Indiana	246	2
Michigan	4,218	17
Ohio	187	1
Dayton's		
Minnesota	2,632	12
North Dakota	299	3
South Dakota	102	1
Wisconsin	101	1
Marshall Field's		
Illinois	3,944	15
Ohio	201	1
Texas	721	4
Wisconsin	904	4
Total	**13,555**	**61**

Major Markets

Chicago	14
Minneapolis/St. Paul	10
Detroit	9

Total all Stores	**708**
Total retail square feet	**73,769**

NUMBER OF STORES



• = Major Markets

Standing, left to right: John A. Rollwagen, Michele J. Hooper, Kenneth A. Macke. Seated, left to right: Rand V. Araskog, Bruce K. MacLaury.

Standing, left to right: David T. Kearns, David T. McLaughlin, Roger A. Enrico; Seated, left to right: Betty Ruth Hollander, Robert A. Burnett.

Standing, left to right: Stephen E. Watson, Donald J. Hall, Livio DeSimone; Seated, left to right. Mary Patterson McPherson, Roger L. Hale.

DIRECTORS

Rand V. Araskog, 59
Chairman and
Chief Executive Officer,
ITT Corporation
(diversified multinational company)
(1)(3)(5)
After serving six years in the Office of the Secretary of Defense, Mr. Araskog worked in the defense businesses of Honeywell, Inc. He joined ITT in 1966 and, after advancing through various management positions, was named president and chief executive officer in 1979 and chairman in 1980.

Robert A. Burnett, 63
Chairman,
Meredith Corporation
(media company engaged in printing, publishing, broadcasting and real estate) (1)(3)(4)
Mr. Burnett joined Meredith Corporation in 1952. After advancing in the Better Homes and Gardens magazine operation, he served as Meredith's chief executive officer from 1977 to 1989 and was elected chairman in 1988.

Livio D. DeSimone, 54
Executive Vice President,
3M Company
(diversified manufacturer) (1)(2)(5)
Mr. DeSimone's 3M career spans various international and domestic positions beginning in 1957. He was elected executive vice president in 1981.

Roger A. Enrico, 46
Chairman and
Chief Executive Officer,
Frito-Lay, Inc.
(food manufacturer, subsidiary of PepsiCo, Inc.)
(1)(2)(4)
Mr. Enrico held various domestic and international management positions after joining PepsiCo in 1971. After serving as president and chief executive officer of Pepsi-Cola Company, he was named president and chief executive officer of PepsiCo Worldwide Beverages in 1986. He was named to his current position in early 1991.

Roger L. Hale, 56
President and
Chief Executive Officer,
TENNANT
(industrial equipment manufacturer)
(1)(4)(5)
In his 30-year career at TENNANT, Mr. Hale has held management positions in systems, corporate development and international operations. He was elected chief executive officer in 1976.

Donald J. Hall, 62
Chairman,
Hallmark Cards, Incorporated (greeting card manufacturer) (1)(2)(5)
Mr. Hall joined Hallmark in 1953. After his election to Hallmark's board of directors in 1956, he held a succession of management positions culminating in his serving as chief executive officer from 1966 to 1985 and his election as chairman in 1983

Betty Ruth Hollander, 61
Chairman and
Chief Executive Officer,
The Omega Group, Inc.
(manufacturer of scientific measurement and control devices and systems, technical publishing, and industrial and commercial real estate development) (1)(3)(4)
Ms. Hollander founded Omega Engineering and was elected president in 1962. She began serving as chairman and chief executive officer of The Omega Group in 1978.

Michele J. Hooper, 39
President,
Baxter Corporation
(health care and laboratory supplies provider, subsidiary of Baxter International) (1)(2)(5)
Prior to her appointment as president in 1988, Ms. Hooper served as vice president, corporate planning, for Baxter International in Deerfield, Illinois. She joined Baxter in 1976.

David T. Kearns, 60
Chairman,
Xerox Corporation
(business products and systems, and financial service business) (1)(2)(3)
After joining Xerox in 1971, Mr. Kearns served in various management positions in domestic and international operations. He was named chief executive officer in 1982 and chairman in 1985.

Kenneth A. Macke, 52
Chairman and
Chief Executive Officer (1)
Mr. Macke joined Dayton's as a merchandise trainee and advanced through various management positions at Dayton's and, later, served in top positions at Target. He was elected chief executive officer of the Corporation in 1983 and chairman in 1984.

Bruce K. MacLaury, 59
President,
The Brookings Institution
(research and education organization) (1)(3)(5)
Following positions at the Federal Reserve Banks of New York and Minneapolis and the U.S. Treasury, Mr. MacLaury became president of The Brookings Institution in 1977.

David T. McLaughlin, 58
President,
The Aspen Institute
(institute for leadership development)
(1)(2)(4)
Mr. McLaughlin served as chairman and chief executive officer of the Minneapolis-based Toro Company and as president of Dartmouth College before becoming president of The Aspen Institute in 1987.

Mary Patterson McPherson, 55
President,
Bryn Mawr College
(institute for higher learning)
(1)(2)(4)
Ms. Patterson McPherson joined the Bryn Mawr faculty in 1961 and advanced through various administrative positions. She was named acting president in 1976 and became president in 1978.

John A. Rollwagen, 50
Chairman and
Chief Executive Officer,
Cray Research, Inc.
(manufacturer of super computers)
(1)(3)(5)
Mr. Rollwagen began his career in 1968 by joining International Time Sharing, Inc. He joined Cray Research in 1975 and served in various management positions. He was elected chief executive officer in 1980 and chairman in 1981.

Stephen E. Watson, 46
President
Mr. Watson joined Dayton's in 1973 as a merchandise trainee and advanced through several management positions. He was named chairman and chief executive officer of the Department Store Division in 1985 and was elected president of the Corporation in 1990.

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee

OFFICERS

Kenneth A. Macke*+, 52
Chairman and Chief Executive Officer

Stephen E. Watson*+, 46
President

James T. Hale*+, 50
Senior Vice President,
General Counsel and Secretary
Mr. Hale joined the Corporation in 1981 following positions in private law practice and at General Mills.

Willard C. Shull, III*+, 50
Senior Vice President,
Chief Financial Officer
Since joining the Corporation in 1971, Mr. Shull has held various financial management positions until being named to his present position in 1979.

Edwin H. Wingate*, 58
Senior Vice President,
Personnel
Mr. Wingate began his professional career in 1959 and served as a human resource executive for several prominent corporations. He joined the Corporation in 1980 and was shortly thereafter named to his current position.

Ann H. Barkelew, 56
Vice President,
Corporate Public Relations
Before joining the Corporation in 1982, Ms. Barkelew held senior public relations positions for 20 years, most recently at Munsingwear, Inc.

Larry E. Carlson, 47
Vice President,
Research and Planning
Mr. Carlson joined the Corporation in 1970 and served in various market planning and research positions until apppointment to his present position in 1987.

Karol D. Emmerich*, 42
Vice President, Treasurer and
Chief Accounting Officer
Ms. Emmerich joined the Corporation in 1972 and advanced through various financial management positions culminating in her appointment as vice president, treasurer, in 1980 and chief accounting officer in 1989.

L. Fred Hamacher, 52
Vice President,
Compensation and Benefits
Following six years as an insurance executive, Mr. Hamacher joined the Corporation in 1970 and assumed his present responsibilities in 1984.

William E. Harder, 58
Vice President and Assistant Secretary
Following positions in foundation and private law practice, Mr. Harder joined the Corporation in 1969. He was named to his current post in 1981.

James R. Eckmann, 40
Assistant Treasurer
Mr. Eckmann began his career with the Corporation in 1975 and, after advancing through several investment positions, was named to his current title in 1986.

William P. Hise, 54
Assistant Secretary
Before joining the Corporation in 1971, Mr. Hise practiced law in the real estate development industry.

OPERATING DIVISION MANAGEMENT

Target

Robert J. Ulrich*+, 47
Chairman and
Chief Executive Officer
Mr. Ulrich's career began in 1967 as a merchandise trainee at the Department Store Division. After serving in various management positions at the Department Stores, Diamond's and Target, he was named to his current position in 1987.

Warren D. Feldberg, 36
President
Mr. Feldberg joined Target in 1988 after four years at Lechmere, where he rose to executive vice president. He was named to his current post in early 1991.

Mervyn's

Walter T. Rossi*+, 48
Chairman and
Chief Executive Officer
Mr. Rossi joined Mervyn's in 1976 after 12 years as an executive with another retailer. After serving in various management positions, he was named to his present responsibilities in 1984.

Joseph C. Vesce, 42
President
After several years at another retailer, Mr. Vesce joined Mervyn's in 1975 as a training director. He served in various personnel, store and merchandise management positions and was named president in 1988.

Department Store Division

Marvin W. Goldstein*+, 47
Chairman and
Chief Executive Officer
Mr. Goldstein started his retailing career at the Department Store Division as a management trainee in 1976. After 10 years in management at other retailers, he returned to the Department Stores in 1988 and was named chairman and chief executive officer in 1990.

James R. Stirratt, 46
Executive Vice President,
Department Store Division
Mr. Stirratt joined Dayton's in 1969 as a merchandise trainee. He advanced through various merchandising and management positions and was named to his current post in 1990.

Gary M. Witkin, 41
President,
Marshall Field's
After several years as a merchant with another retailer, Mr. Witkin joined Marshall Field's in 1983. He was named to his present position following the acquisition of Marshall Field's in June 1990.

Dennis R. Toffolo, 43
President,
Hudson's
Mr. Toffolo began his career at Hudson's in 1969 as a management trainee. Following a variety of positions at both Dayton's and Hudson's, he was named to his current position in 1990.

* Executive Officers
\+ Corporate Operating Committee Member

Dayton Hudson Corporation
777 Nicollet Mall, Minneapolis, Minnesota 55402

CORPORATE INFORMATION

Corporate Offices

777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6948

Annual Meeting

The Annual Meeting of Shareholders is scheduled for 9:30 a.m. Wednesday, May 29, 1991, at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota. Shareholders unable to attend can listen to the proceedings live between 9:30 and 10:30 a.m., CDT, by dialing 1-900-590-7676. A tape of the meeting also will run every hour on the hour, beginning at 1:00 p.m., CDT. The cost to call is $.45 for the first minute and $.35 for each additional minute. (Callers who are not AT&T subscribers must dial the AT&T access code (10288) before dialing the 900 number.)

Community Involvement

In keeping with its commitment to corporate responsibility, Dayton Hudson annually contributes significantly to support its communities. In 1990, we contributed more than $30 million in the communities where we do business. The giving program is focused in two areas: social action and the arts. For a copy of the 1990 Community Involvement Report, write to Chair, Dayton Hudson Foundation, at the Dayton Hudson corporate offices.

10-K Report

A copy of the Form 10-K annual report, filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 2, 1991, is available at no charge to shareholders. Write to Director, Investor Relations at the Dayton Hudson corporate offices.

Dividend Reinvestment Plan

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment and voluntary cash purchase. All registered holders of Dayton Hudson common stock may participate. For more information, write to First Chicago Trust Company of New York, P.O. Box 3506, Church Street Station, New York, New York 10008-3506.

Transfer Agent, Registrar and Dividend Disbursing Agent

First Chicago Trust Company of New York

Trustee

First Trust National Association

Stock Exchange Listings

New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

Shareholder Assistance

For assistance regarding individual stock records and transactions, write to First Chicago Trust Company of New York, P.O. Box 3981, Church Street Station, New York, New York 10008-3981 or call 1-800-446-2617.

You also may contact Dayton Hudson's Investor Relations Department at 1-800-338-8053.

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